

**FINANCE PLAN  
INDEPENDENT REVIEW PANEL  
NOVEMBER 18, 2003, MEETING**

**SUMMARY REPORT ON THE  
INDEPENDENT REVIEW PANEL'S  
DISCUSSION OF THE "DEVELOPING BAY-  
DELTA PROGRAM FINANCE OPTIONS –  
FRAMEWORK & ISSUES REPORT"**

**CONVENED BY THE  
CALIFORNIA BAY-DELTA AUTHORITY**

**DECEMBER 10, 2003**

## ABOUT THIS REPORT

This report is divided into three sections. The first section, Meeting Summary, provides an overview of the meeting purpose and participants, summarizes presentations and discussions, and lays out the intended next steps associated with this initiative. The second section, Panel Report, is a memorandum from the Panel summarizing their consensus guidance to the Bay-Delta Authority on its "Framework & Issues Report." The memorandum was prepared by Panel Chair David Dowall and reviewed and revised by the Panel. Authority staff and consultants did not make any revisions to the Panel Report section of this summary. The third section, Appendix, provides a number of background documents related to the Panel's deliberations. Panelists had an opportunity to review and comment on all aspects of this meeting summary report.

## SECTION ONE: MEETING SUMMARY

### INTRODUCTION

#### Panel Impetus and Background

The Bay Delta Authority (BDA) is preparing a long-term Finance Plan for all aspects of the Bay-Delta Program. A fundamental priority of the Bay-Delta Program is to maintain a balanced and integrated Program. There are four equally important objectives, (water supply reliability, levee system integrity, water quality, and ecosystem restoration), implemented through 11 program elements, that need to move forward together to ensure overall Program success. Funding availability over the first three years of the Program has caused delays and threatens Program balance. Therefore, it is important to develop a Finance Plan that enables the Program to continue implementation in a balanced manner.

The BDA has convened the Finance Plan Independent Review Panel to review and comment on the Program's approach for developing program-wide, long-term finance options. Specifically, the Panel is being asked to review three reports over the next seven months: Framework and Issues Report; Draft Finance Options; and Final Finance Options. The Panel's independent review of these materials is considered a critical element of the BDA's efforts to put forward a realistic, well-informed and broadly supported finance plan.

The Panel consists of eight panelists with academic and/or practical expertise in the following areas. public finance; financing for large ecosystem and/or water management programs; federal and/or state financing policies, laws, fee revenue systems or other funding structures; benefit and cost allocation processes related to water or other natural resources programs or projects; and, western water and environmental resource issues, policies, or programs. The panelists are:

David Dowall (Panel Chair) UC Berkeley	Wendy Illingworth Economic Insights
David Abel Abel & Associates	Dean Mischynski California Research Bureau
Frederick Furlong Federal Reserve Bank of San Francisco	Daniel Sumner UC Davis
Michael Hanemann UC Berkeley	Dennis Wichelns CSU Fresno

A summary of panelist bios can be found in *Section Three*.

To foster a process informed by agency and stakeholder views and perspectives, the Panel process incorporates the continued input of diverse and informed stakeholders and state and federal agency representatives. Many of these individuals – nominated by the Bay-Delta Public Advisory Committee’s Steering Committee and the Bay-Delta Agencies – participate through an Ad Hoc Work Group. These participants contribute to Panel deliberations and provide between-meeting guidance, and serve as a sounding board regarding the development of the Finance Options Report, and ongoing Panel process and issues.

Additionally, the Panel’s deliberations are to be supported by a Technical Team consisting of BDA staff and consultants with expertise in, among other things, resource economics, engineering, and public finance. The Technical Team, headed by Authority Assistant Director of Finance and Policy Kate Hansel, will be responsible for preparing draft materials for review by the Panel. (See *Section Three* for a complete listing of Panel participants.)

The Panel is expected to conduct its deliberations between November 2003 and May 2004, with formal panel deliberations to be held in November 2003, February 2004 and April 2004. Recommendations and findings developed by the Panel are advisory in nature. Any formal proposals developed by the Program based on the Panel’s comments will be discussed with all appropriate BDA advisory and decision-making bodies.

### **November Meeting Purpose and Structure**

The initial meeting of the Independent Review Panel, held November 18, 2003, in the Authority’s Sacramento offices, had two primary purposes: (1) provide panelists with background information on the Authority and its Finance Planning effort; and, (2) obtain comments from the panelists on the October 2003 “Framework and Issues Report.” (See *Section Three* for the meeting agenda.)

To support the Panel’s deliberations, BDA staff provided panelists with a number of background materials. (A listing of these materials can be found in *Section Three*.) These materials also were provided and discussed with the Ad Hoc Work Group in advance of the meeting.

The meeting itself was structured to facilitate an informed discussion among panelists, Ad Hoc Work Group members, Authority staff and consultants, and the general public. To that end, though panelists were the primary discussants, other meeting participants were invited to comment on draft materials and provide additional perspectives for the Panel to consider during its deliberations. (See *Section Three* for the Meeting Procedures/Ground Rules.)

Panelists also were provided an opportunity towards the end of the meeting to meet separately and prepare summary comments for discussion with meeting participants.

### **Meeting Participants**

The meeting was attended by the following Panel members: Chair David Dowall, Fred Furlong, Michael Hanemann, Wendy Illingworth, Dean Mischynski, Daniel Sumner and Dennis Wichelns. Panelist David Abel was unable to attend due to a last-minute emergency.

Also at the meeting were Authority Executive Director Patrick Wright and Assistant Director Kate Hansel and Technical Team members. Approximately 40 members of the public, including a number of Ad Hoc Work Group members, attended all or part of the Panel's deliberations.

## **DISCUSSION SUMMARY**

Below is a summary of the major issues discussed at the meeting. This section is structured to emphasize comments and questions raised by panelists and to highlight remarks from Ad Hoc members and the public.

### **Welcome and Introduction**

The Panel meeting opened with welcoming remarks by Authority Executive Director Patrick Wright, Panel introductions and a summary of the meeting purpose, agenda and ground rules by Panel Chair David Dowall.

In his opening comments, P. Wright stressed his view that, if the program is to secure a stable, long-term funding base, the BDA needs to develop a realistic financing plan that is capable of garnering broad support. He encouraged the Panel to engage in a candid review of the BDA's proposed approach.

### **Background**

Following the introductory remarks, Authority Assistant Director Kate Hansel provided a background briefing. Her comments covered the following topics:

- ***California Bay-Delta Authority.*** This overview centered on the mission, history and focus of the California Bay-Delta Authority. The briefing emphasized, in particular, the complexity and inter-relatedness of the various Program elements, as well as a review of the funding sources and gaps to-date. K. Hansel also noted the lack of secure funding for the program beyond the next two to three years.

- **Finance Plan.** This overview briefly summarized the primary purposes and challenges inherent in developing a long-term finance plan. K. Hansel's remarks emphasized the future funding needs, existing principles and practices, and the strategy and timetable for developing finance options.
- **Panel Purpose.** Finally, K. Hansel offered a brief summary of the Panel's purpose, emphasizing its role in reviewing and commenting on BDA-drafted technical materials such as the Framework & Issues Report and the draft and final Finance Options Report.

P. Wright then offered comments to provide additional context on the challenges facing the Panel and the Authority as it engages in its deliberations. His remarks focused initially on two topics: (1) highlighting the significant diversity of views among stakeholders and agencies regarding the value, potential and possible impacts of developing a long-term finance plan; and, (2) emphasizing the significant challenges facing the program, including the shifting public funding practices and realities in California, the need to account for diverse local contributions, and the necessity to grapple with multiple benefits.

Additionally, he also stressed his view that any finance plan must be cognizant of the twin realities of: (1) California's tough funding environment; and, (2) existing financing laws and regulations. Finally, he stressed that, in his view, a workable finance plan will need to avoid getting mired down in precise apportioning and, instead, focus on answering the key question: How can the program pay for the necessary investments?

Several Ad Hoc Work Group members also offered their views of the process and challenges. Their comments touched on the following topics:

- **Practicality.** Steve Hall with the Association of California Water Agencies urged the Panel to avoid the philosophical debate of "who should pay" and, instead, take a problem-solving approach that matches likely Program costs with existing funding sources, identifies funding gaps, and then determines which entities are most likely able and willing to fill those gaps. He encouraged the Panel and Program to develop a finance plan that is robust, reasonably fair and able to meet program needs.
- **Credibility.** Barry Nelson with the Natural Resources Defense Council stressed his support for the development of a "credible" finance plan – one that, among other things, assigns costs to those benefiting from program actions, separates out long- and short-term costs, and distinguishes between public and private benefits. This approach, he said, is the key to securing a stable funding base.

- ***Uncertainty/Transparency.*** Greg Gartrell with the Contra Costa Water District emphasized, in particular, the importance of including in any final Panel deliverable a transparent summary of what is and is not known regarding future costs and benefits. To that end, he urged that the Finance Panel's deliverable be informed by iterative discussions with the stakeholders, agencies and general public. Given the many uncertainties, he also encouraged the Technical Team to rely on estimated ranges – and not a more precise accounting of costs and benefits. Leah Wells with Regional Council of Rural Counties also reinforced the concern regarding uncertainties as it relates to the watershed areas.
- ***Baseline.*** Dan Nelson with the San Luis-Delta-Mendota Water Authority stressed his view that a beneficiary pays analysis necessarily requires the Options Report to consider baseline issues, as it has a significant impact on the quantification of past contributions.

### **Framework & Issues Report**

The bulk of the day was spent reviewing and discussing the document, “Developing Bay-Delta Program Finance Options – Framework & Issues Report.” K. Hansel and Technical Team member David Mitchell presented a detailed overview of the issues and proposed framework summarized in the “Framework and Issues Report.” Technical Team member Loren Bottorff walked panelists through a brief example focused on the levees program element. Their presentations emphasized the following points:

- The twelve finance issues summarized in the Report are intended to reflect topics raised in discussions with stakeholders and others. Among the issues listed in the report, K. Hansel noted that several are particularly controversial or challenging. These include such topics as baseline, local contributions, joint costs, and existing laws and policies. K. Hansel further noted that the Technical Team proposes using its expanded framework to analyze these issues and explore different approaches for addressing them in the Finance Options Report.
- In introducing the framework, D. Mitchell noted that the proposed analytic approach is unavoidably complex and will need to embed, in many cases, significant uncertainties. Still, D. Mitchell stressed that the Technical Team believes that the framework, once completed, will be of great value to the Program and interested stakeholder communities by, among other things: clarifying what is and is not known about Program costs and benefits; framing and analyzing the key issues raised in the Issues Report; providing a common language and approach for resolving future finance decisions; and providing a template for future use and updating as additional information becomes available. He emphasized the Technical Team's commitment to carrying out an analysis that is both (1) transparent; and, (2) reasonable and/or instructive.

- L. Bottorff's review of the levee example demonstrated the conceptual approach outlined in the "Issues & Framework Report." The presentation emphasized several key points, including: (1) the Technical Team's first cut analysis of the levee program will have varying levels of detail and certainty; (2) benefits and beneficiaries vary by specificity and location; (3) there is a lack of stable funding to-date; and, (4) a preliminary examination of benefits seems to suggest the potential for wider participation by beneficiaries.

The presentations triggered numerous comments, questions and suggestions from panelists. Most broadly, panelists complimented the Technical Team's approach and presentations and generally endorsed a benefits-based analysis. At the same time, panelists raised a number of concerns and questions regarding the proposed approach, with their comments centering around the following themes:

- ***Provide greater context.*** Several panelists called for the Technical Team to add sections to the Finance Options Report Outline to provide greater context. This suggestion encompassed several specific recommendations, including: (1) clarifying the intended audience for the Options Report; and, (2) articulating why the current funding strategy is no longer considered viable. Additionally, panelists suggested that the Technical Team prepare a first-order analysis of the benefits likely to be derived from the various program elements, and do an analysis to determine whether aggregated benefits are likely to exceed costs.
- ***Acknowledge and account for uncertainty.*** Panelists voiced concern that the apparent challenge in gathering critical data and information – difficult-to-predict program actions, project costs and future benefits – may make it troublesome to develop financing options in the near-future. Some initial suggestions for addressing these uncertainties in the near-term include: using ranges of costs, rather than precise estimates; characterizing the likelihood for particular benefits to accrue to specific beneficiaries; and analyzing multiple scenarios that bracket the range of potential actions and outcomes.
- ***Strive for reasonable level of detail.*** Several panelists expressed concern that the framework, as presented, may be unnecessarily detailed – particularly given the current scope of unknowns. Panelists also voiced concern that an overly detailed analysis might not serve the needs of the policy-focused decision-makers who must eventually craft a viable finance plan. Finally, some panelists voiced concern that – given the data shared with them thus far – it appears it may be difficult to assign or allocate benefits to specific beneficiaries. Among the suggestions offered for streamlining the analysis included: (1) simplifying the benefits analysis; and, (2) focusing on several representative Elements and not the entire Program.



- ***Broaden cost-allocation options.*** Panelists expressed interest in seeing the technical analysis consider and demonstrate the possible ramifications of different cost-allocation principles. In addition to the benefits-based approach outlined in the Framework, panelists suggested considering allocations based on current funding formulas and practices, stand-alone/separable costs and public goods principles. The Panel's discussion on this particular topic did not result in a final agreed-upon list of principles to consider.
- ***Consider using multiple baselines.*** Similarly, panelists encouraged the Technical Team to consider using different baselines in its analysis. Panelists' comments on this point were grounded primarily in their interest in using the analysis as a way to demonstrate to stakeholders and policymakers the potential impacts of differing baselines on finance options. [The Technical Team noted that, given the diversity of stakeholder views on this topic, the Team proposes to address baseline issues primarily through the cost repayment step.]
- ***Involve Panel in framework redesign.*** Several Panel members strongly recommended that the Technical Team engage in an iterative discussion with panelists and stakeholders as they consider changes to the Framework. To that end, panelists expressed a willingness to conduct additional workshops or teleconferences with the Technical Team to consider possible changes to the analytical approach.

The discussion also yielded a number of other specific suggestions and observations, including the need to:

- Distinguish between long and short-term costs, as well as operating and capital costs;
- Aggregate information by expected beneficiaries so that affected stakeholder communities and decision-makers can more easily assess the likely costs and benefits associated with each group;
- Assign a "confidence" level to the likelihood that a benefit will accrue to a particular beneficiary group;
- Articulate, to the extent possible, the physical and economic quantification of expected program actions (eg., the extent to which levee maintenance is expected to reduce the risk of levee failure and the economic value associated with that diminished risk);
- Focus on marginal (incremental) costs and benefits;
- Early in the analysis, explore potential beneficiaries' ability and willingness to pay;
- Integrate negative benefits into the analysis;
- Broaden the "public" category of beneficiaries by describing specific beneficiary groups; and,

- Allocate sufficient time to develop what is characterized in the proposed Framework as Steps 3 and 4: development of finance mechanisms and financial structure and a tracking system.

Stakeholder and agency representatives contributed various comments and questions following the Panel deliberations. These included:

- Be wary of trying to resolve baseline and redirected impacts issues upfront, given the controversial nature of these topics. Rather, demonstrate the impacts of differing baselines.
- Do not expect beneficiaries to willingly identify themselves and express a willingness to pay.
- Work with stakeholder groups to gather and critique the data necessary to undertake benefits-based analysis.
- Make sure examples account for the impact of different project operations on benefits and beneficiaries.
- Recognize that any significant departure from existing financing rules and mechanisms is likely to encounter divergent stakeholder views and reactions.

Following the discussions, the panelists met in a 45-minute, Panel-only sidebar to consider the presentations and develop structured recommendations and comments for the Authority's consideration. A summary of the Panel's consensus recommendations was presented to the public and is included in *Section Two* of this report.

## NEXT STEPS

Based on the Panel's comments, panelists and Authority staff and consultants agreed to the following next steps over the next several weeks:

- Panel Chair David Dowall is to draft and circulate to panelists for their review and revision an expanded version of the Panel's comments on the "Framework & Issues Report" presented verbally at the end of the November 18 meeting. A final version of these comments, referred to as the Panel Report, is then to be forwarded to the Authority for inclusion in the Meeting Summary. (These Panel comments are included as *Section Two* of this summary.)
- Authority staff and consultants are to generate a Meeting Summary that includes the Panel-drafted Panel Report. This Meeting Summary – included as *Sections One* and

*Three* of this report – is to be circulated to Panel members for their review and comment.

- The Authority is to finalize the Meeting Summary (this report) for distribution to and discussion at the December 11 joint meeting of the BDPAC and Bay-Delta Authority. Additionally, Authority staff and consultants are to prepare a suggested approach for revising the Framework to account for Panel comments. This revised approach will be discussed at the joint BDPAC and the Bay-Delta Authority meeting.

Additionally, Panel members and Authority staff and consultants outlined a number of other suggestions for moving forward, including:

- Convening a possible workshop or teleconference in December to enable the Technical Team and Panel to consider the Authority's strategy for incorporating Panel comments and to chart an agreed-upon path forward. These discussions will likely shape the focus of the Panel's deliberations slated for February 2004.
- Schedule interim communications between the Technical Team and Panel to ensure panelists have an opportunity to track the evolving analysis and provide ongoing feedback. It is unclear at this time if this communication will take the form of memoranda, teleconferences or both.
- Foster the ongoing involvement of Ad Hoc Work Group members and public discussions to ensure the Panel's deliberations remain transparent and are informed by stakeholder and agency information and perspectives.

The Authority's web site related to the Finance Plan will be continually updated to provide evolving materials and announce upcoming meetings.

## SECTION TWO: PANEL REPORT

### MEMORANDUM

To: Patrick Wright, Director  
Kate Hansel, Assistant Director  
California Bay-Delta Authority

From: Finance Plan Independent Review Panel

Re: Summary of First Meeting to Review Framework

Date: December 10, 2003

---

This memorandum serves as a first-cut summary of the recommendations that the Finance Panel outlined at its Tuesday, November 18<sup>th</sup> meeting regarding the proposed Finance Options-Framework and Issues Report. Panel members found the meeting to be excellent—it provided a thorough overview of the financial plan framework and provided ample opportunity to discuss the framework and overall contextual issues related to funding the future activities of the California Bay Delta Authority. The panel would like to compliment the work of the staff and the Technical Team in preparing the framework. Finally, the panel found the comments of the Ad Hoc Work Group and the general public very useful in clarifying issues.

Based on the presentations of the staff and the technical committee, review of the draft framework document and our sidebar discussions, the panel offered a range of comments and suggestions on how to sharpen the focus and enhance the effectiveness of the CBDA finance plan.

The framework and the research approach need to be based on a clear understanding of who is the audience of the final report and how the report will be used to take decisions regarding finance options. The report should be viewed as a decision support tool for high-level policy-makers who will use it to identify and assess a range of options for financing Bay Delta components.

The panel feels that it is important to set the context for decision-making. The report needs to outline the projected costs of the proposed program components (both near- and longer-term, where the latter includes expected ongoing operating/maintenance costs and capital project costs). Since many of these costs are uncertain and highly dependent on how baseline conditions are defined, the panel suggests that a range of costs (perhaps cost scenarios) should be defined and used as a point of departure for

exploring financing alternatives. (This is relevant mainly to the future ongoing costs and capital projects.)

### **Background Information**

Prior to addressing the approaches for funding/financing BDP programs going forward, the report should review what is known about past and near-term BDP costs and funding—specifically, the costs and funding sources for years 1 through 4. The October 2003 report already includes a chart describing funding sources for years 1 through 4, and the staff presentations at the November 18 Independent Review Panel meeting included information on state funding for years 1 through 3 for individual BDP programs. It would be useful to discuss the nature of costs (one-time, capital, maintenance, etc.) and the nature of the funding (bonds, general fund, type of user fees) from the various sources (state, federal, water users, and local grants).

The discussion will serve two purposes. First it will provide the basis for the discussion of the costs to be funded/financed—both any expected near-term shortfall in funding and the future costs (year 5 and beyond), again with ranges where appropriate. In addition to grouping the cost by the two time intervals (near-term and future), it would be useful to categorize the costs by whether they are one-time costs, recurring (ongoing) costs, or capital costs.

Second, the discussion of the extant BDP funding would lead naturally to a review of historical practices for funding California water projects and infrastructure projects more generally (California and elsewhere). The discussion could highlight the traditional use of taxpayer-financed debt as well as alternative arrangements that rely more on fees/charges to water users. In this section it would be useful to include a discussion of infrastructure funding by utilities and by other state and local entities.

### **Describing Costs and Benefits**

Before considering traditional and alternative approaches to funding/financing program costs, the framework should provide a first-order test of the benefits that are likely to be derived from the components. This need not be done with total precision—we agree with the comments of the Technical Team that this test is best done by quantifying the easy to measure benefits and then do a break-even analysis to determine whether it is reasonable to assume aggregate benefits will exceed costs. In particular, the Technical Team should start by identifying the major purpose(s) of a given program and corresponding beneficiaries.

Based on estimates of costs and benefits, the report would discuss the alternative approaches to funding/financing. First, the report should consider the status quo option--what financial resources might the Authority expect to command under the

current fiscal and political realities, both in terms of the dollar amount and funding sources. Also indicate what this might mean for the level of state bond financing. In this section, the assessments regarding the incidents of the funding burden by necessity will be rough.

The panel expects that the status quo approach to funding will be insufficient, and that a strong case can be made for considering other options for project finance. Although this may seem obvious to those working on the framework, it may not be clear to all parties. By laying out what the funding burden for the state might be expected to be under existing approaches, the analysis would establish the need for considering new financing approaches.

### **Examining Alternative Financing Methods**

The report then should turn to the alternative approaches. What approaches should be used to design new financing mechanisms? The panel suggests that three to four alternative approaches be framed and used to evaluate cost allocation alternatives. Although these approaches need clarification and elaboration, here are some suggestions for discussion:

- A. Public Goods Approach—benefits are assumed to be widely distributed and therefore the general public should bear the costs—through federal and state funding. This is similar to the present approach.
- B. Benefits Approach—component costs should be allocated on the basis of the benefits generated. Presumes that benefits can be reasonably measured and allocated to users and beneficiaries. The allocation would be subject to the “Finance Plan Principles” in the October 2003 report.
- C. Stand-alone/Separable Cost Approach—allocate costs to beneficiaries that are less than the costs that they would incur if they acted independently. Allocate remaining joint costs based on benefits principle. The allocation would be subject to the “Finance Plan Principles” in the October 2003 report— recognizing that this approach subsumes the third principle.

The Public Goods Approach is based on the view that, as a first approximation, the benefits from the BDP accrue mainly to the public at-large. This approach suggests that policy makers should rely mainly on taxpayer funding, roughly what has been the case to date for the BDP. The other two approaches place emphasis on the principle that the BDP programs should be funded by those benefiting from the programs. Under the Benefits Approach, the costs of a program generally would be allocated based on the relative marginal benefits accruing to the various stakeholders.

Where cost allocations are based even partially on benefits, the study must address the issue of the baseline used to identify the beneficiaries. This is an extremely divisive issue that cannot be solved through the application of science or logic. It rather depends on the participants' beliefs as to their rights or moral position. As a result, the panel believes it is counterproductive to attempt to select a single baseline that all will find appropriate. We recommend that the staff adopt two or three baselines that reflect the differing stakeholder positions, and determine the benefits of the projects according to each of the baselines. This will result in a range of cost allocations that are based on the differing perspectives held by the stakeholders. The final cost allocation will be a political decision. By framing the range of negotiation according to the positions of the stakeholders, the staff can move the negotiation process forward.

The panel suggests that the Technical Team create two sets of examples that demonstrate application of the cost allocation approaches for the various baseline scenarios, for each of two proposed project components: New Water Supply and the Environmental Restoration Program. The matrices that might be used to describe these scenarios are shown below:

#### New Water Supply

Cost allocation approaches	Baseline assumptions		
	Base1	Base2	Base3
A	Short- and Long-term costs	Short- and Long-term costs	Short- and Long-term costs
B	Short- and Long-term costs	Short- and Long-term costs	Short- and Long-term costs
C	Short- and Long-term costs	Short- and Long-term costs	Short- and Long-term costs

#### ERP

Cost allocation approaches	Baseline assumptions		
	Base1	Base2	Base3
A	Short- and Long-term costs	Short- and Long-term costs	Short- and Long-term costs
B	Short- and Long-term costs	Short- and Long-term costs	Short- and Long-term costs
C	Short- and Long-term costs	Short- and Long-term costs	Short- and Long-term costs

In each case, the analysis should start by developing physical examples – quantities of component costs. The Technical Team also would estimate how costs might be allocated under the various approaches. We suggest that the results of the cost allocations be tabulated by stakeholder groups (e.g., agricultural water users, urban water users, landowners, recreational users). The matrices indicate that cost allocations

should distinguish between short- and long-term costs. More precisely, the cost should be identified as one-time costs, recurring (ongoing) costs, and capital costs.

Once the costs have been identified and allocated, a range of financing structures should be developed. In identifying program costs, it probably is better to include costs already incurred and future costs. The finance alternatives should reflect pay-as-you-go and debt-based approaches. Application of financing structures should reflect the longevity of the investment, the ability to recover costs and costs already funded. They should be applied to the two examples to illustrate how costs would be covered for the various baselines and various cost allocation approaches.

The cost allocation approaches and financing strategies should be evaluated. The criteria for evaluation need to be clarified, but several are clear — ability-to-pay, fairness and equity, robustness, coping with uncertainty and providing safeguards. These criteria closely parallel the first, third and fourth principle among the “Financing Plan Principles” in the October 2003 report. Panel members look forward to working with the Bay Delta Authority, the Ad Hoc Work Group and the Technical Team to examine these issues as we evaluate financing options.

Discussions between the Panel and the Technical Team have already started and over the next several weeks we expect to jointly move toward a robust and useful evaluation approach.



## SECTION THREE: APPENDIX

APPENDIX 1.....	PANELIST BIOS
APPENDIX 2.....	LIST OF PARTICIPANTS
APPENDIX 3.....	MEETING AGENDA
APPENDIX 4.....	LIST OF MEETING MATERIALS
APPENDIX 5.....	MEETING PROCEDURES/GROUND RULES

## APPENDIX 1

### **Bios for Panelists on the Finance Plan Independent Review Panel**

David Dowall, Panel Chair is a Professor of City and Regional Planning at the University of California, Berkeley. He is a Visiting Fellow of the Public Policy Institute of California. Dowall is a leading expert in urban economics and infrastructure policy and frequently consults for the World Bank, Asian Development Bank, United Nations Development Programme, and U.S. Agency for International Development. He has served as policy advisor to local and central governments and businesses in over 40 countries. He has authored several books including his more recent book Making Room for the Future: Rebuilding California's Infrastructure. He holds a B.S. in economics from University of Maryland and both a master's degree in urban and regional planning and a Ph.D in economics from University of Colorado.

David Abel is President and CEO of a California-based Public Affairs Consulting Firm, ABL, Incorporated, engaged in public policy, affordable housing development, transportation, and civic affairs. The firm also publishes two widely respected newsletters: "*The Planning Report*" which covers land-use and the "*Metro Investment Report*" which covers public infrastructure investment. Mr. Abel is also Chair of the LA Area Chamber Transportation, Water and Infrastructure Committee, and is a Lecturer in UCSD's Urban Studies Department, as well as both a Senior Fellow at Occidental College's International & Public Affairs Center and the Chair of USC's School of Public Policy's Overseers Board. In addition to his law & education degrees, his educational background includes an undergraduate degree in economics at the London School of Economics, and a master's degree in Urban Studies.

Frederick T. Furlong is vice president in charge of the Financial and Regional Research Studies Section of the Economic Research Department at the Federal Reserve Bank of San Francisco. Furlong came to the Reserve Bank in 1983 after serving five years as an economist at the Board of Governors of the Federal Reserve System in Washington, D.C. While at the Bank, Furlong has written extensively in the areas of banking, financial markets and monetary policy. He currently serves as a member of the Bay Area Council and Bay Area Economic Forum. After earning a bachelor's degree in science at St. Mary's College of California, Furlong received master's and Ph.D. degrees in economics at the University of California at Los Angeles.

W. Michael Hanemann serves as the Chancellor's Professor in the Department of Agricultural and Resource Economics and in the Goldman School of Public Policy at the University of California, Berkeley. Hanemann's research interests include non-market valuation, environmental economics and policy, water pricing and management, demand modeling for market research and policy design, the economics of irreversibility and adaptive management, and welfare economics. Hanemann is a member of the Environmental Economics Advisory Committee of USEPA's Science Advisory Board, and a member of the BDPAC Drinking Water Quality Subcommittee. He is the author of Urban Water Demand Management and Planning and other publications on urban water financing. His work has appeared in *AER*, *Econometrica*, *JEEM*, *AJAE*, and elsewhere. Hanemann holds a master's degree from the London School of Economics, and both a masters in Public Finance and Decision Theory and Ph.D in economics from Harvard University.

Wendy Illingworth is founder and principal of Economic Insights, an economic consulting firm. She specializes in resource and regional economics, with expertise in the economic and financial aspects of water supply and pricing issues. She has had approximately twenty-five years' experience in resource planning, rate and economic impact issues for water and electric utilities. The last fifteen years of her experience has concentrated on issues related to California water supplies. Her work has focused on areas of economic and financial impacts of alternative supply strategies, economic impacts of proposed projects or regulations, rate design. Illingworth received her undergraduate and graduate degrees in economics from the University of Arizona.

Dean Mischynski is founding director of the California Research Bureau in the California State Library. The Bureau, begun 1991 and modeled on the Library of Congress' Congressional Research Service, provides policy research services to both houses of the California Legislature and the Governor's Office. Mischynski worked for California's Senate for several years, where he drafted the Mello-Roos Act, the Infrastructure Financing District Act (which allows limited tax increment financing for infrastructure to serve new development) and other local financing legislation. He also served as deputy director of the state's Office of Planning and Research. Mischynski's graduate and undergraduate education were at Stanford in economics.

Daniel A. Sumner is Director of the University of California Agricultural Issues Center and the Frank H. Buck, Jr., Professor, Department of Agriculture and Resource Economics, University of California, Davis. Sumner spent several years as a senior economist at the President's Council of Economics Advisers and at the United States Department of Agriculture, where he served as Assistant Secretary for Economics in 1992 and early 1993. Sumner is the author of numerous professional articles, chapters

and reports and the author, coauthor or editor of 10 books. Sumner is a graduate of California State Polytechnic University in agricultural management. He has a master's degree from Michigan State and a Ph.D. in economics from the University of Chicago.

Dennis Wichelns is Chief Economist with the California Water Institute and Professor of Agricultural Economics, at the California State University, Fresno. Since 1985, Wichelns has maintained an active program of research and consulting activities in California, with particular emphasis on irrigation and drainage issues in the San Joaquin Valley. His current research includes analysis of water supply and demand issues in California, transboundary competition for water resources, and the special role that improvements in water management can play in reducing poverty, improving environmental quality, and enhancing food security. He has degrees in Agricultural Economics from the Univ. of Maryland and the University of California, Davis.

## APPENDIX 2

### Finance Plan Participants

#### **Independent Review Panel**

David Dowall, Panel Chair, Professor, U.C. Berkeley  
David Abel, President, Abel & Associates  
Frederick Furlong, Federal Reserve Bank  
Michael Hanemann, Professor, U.C. Berkeley  
Wendy Illingworth, Consultant, Economic Insights  
Dean Mischynski, Director, California Research Bureau  
Daniel Sumner, Professor, U.C. Davis  
Dennis Wichelns, Professor, C.S.U. Fresno

#### **Ad Hoc Stakeholder and Agency Work Group**

Jerry Meral, Planning and Conservation League Foundation  
Barry Nelson, Natural Resources Defense Council  
Frances Spivy-Weber, Mono Lake Committee  
Steve Hall, Assoc. of CA Water Agencies  
Brent Walthall, Kern County Water Agency  
Lowell Ploss, SJR Group Authority  
Dan Nelson, SLDMWA  
Don Bransford, GCID  
Greg Gartrell, Contra Costa Water Agency  
Joe Grindstaff, Santa Ana Watershed Project Authority  
Tim Quinn, MWD  
Doug Wallace, East Bay MUD  
Robert Meacher, Plumas County Supervisor, RCRC  
Jerry Toenyes, Northern California Power Agency  
Tom Zuckerman, Delta landowner  
Mark Cowin, Department of Water Resources  
Tina Cannon, Department of Fish and Game  
Mark Newton, Legislative Analyst's Office

#### **Technical Team -- BDA Staff and Consultants**

Kate Hansel, Assistant Director, BDA  
Mike Myatt, BDA  
David Mitchell, M-Cubed  
Richard McCann, M-Cubed  
Steve Hatchett, Water Resources Economics, WREcon  
Roger Mann, RMEcon  
Ken Kirby, Consultant  
David Kracman, Saracino Kirby and Snow  
Loren Botoroff, Consultant  
Bennett Brooks, CONCUR

*Note: Not all participants were able to attend the Panel's November 18, 2003, meeting*

## APPENDIX 3

### Meeting Agenda Tuesday, November 18, 2003

TIME	AGENDA ITEM	DISCUSSION NOTES
9:00 AM	Welcome and Introductions	<ul style="list-style-type: none"> <li>• General Welcome</li> <li>• Panel Introductions</li> <li>• Review Panel Process/Proposed Ground Rules</li> </ul>
9:30 AM	Background	<ul style="list-style-type: none"> <li>• Overview, California Bay-Delta Program</li> <li>• Overview, Finance Plan</li> <li>• Review Panel Purpose and Intended Deliverables               <ul style="list-style-type: none"> <li>- Brief discussion</li> </ul> </li> </ul>
10:45 AM	<i>Break</i>	
11:00 AM	Topic One: Framework and Issues Report	<ul style="list-style-type: none"> <li>• Present Overview of Finance Plan Framework and Issues Report</li> <li>• Discussion               <ul style="list-style-type: none"> <li>- Opportunity for clarification</li> <li>- Additional issues for consideration</li> </ul> </li> </ul>
12:00 PM	<i>Lunch</i>	
1:00 PM	Topic Two: Framework Example & Discussion	<ul style="list-style-type: none"> <li>• Review Framework Example – Levee Program</li> <li>• Consider Adequacy of Approach               <ul style="list-style-type: none"> <li>- Is the Analysis Framework, as currently structured, adequate and effective for developing finance options?</li> <li>- Is it the right level of detail?</li> <li>- Are there specific changes that can strengthen the approach?</li> </ul> </li> </ul>
3:00 PM	<i>Break/Panel Sidebar</i>	
3:45 PM	Wrap Up and Next Steps	<ul style="list-style-type: none"> <li>• Summarize Panel Discussions</li> <li>• Consider Approach for Future Panel Deliberations               <ul style="list-style-type: none"> <li>- Meeting Focus and Schedule</li> <li>- Link with Final Work Product</li> <li>- Information Needs</li> </ul> </li> </ul>
4:30 PM	Adjourn	

## APPENDIX 4

### **Materials Distributed to Support the November 18, 2003 Deliberations of the Finance Plan Independent Review Panel**

Below is a listing of materials prepared to support the Panel's deliberations. These materials also were made available to the Ad Hoc Work Group and are posted on the BDA website.

#### *Meeting Materials*

- Agenda
- Meeting Process/Ground Rules
- Panel Description
- Panelist Bios
- Participant List

#### *Current Finance Plan Materials*

- Framework and Issues Report
- Expanded Framework
- Options Report Outline

#### *Background Information*

- CALFED Bay-Delta Program Annual Report (2002)
- Financing Options for Water-Related Infrastructure in California (May 1996)
- Implementing a Broad-Based Bay-Delta Diversion Fee (November 2000)
- Summary of CALFED Finance Planning Efforts and Next Steps (March 2003)

## APPENDIX 5

### Meeting Procedures/Ground Rules

#### PARTICIPATION AND ROLES

- 1) Participants in the initial meeting of the Finance Plan Independent Review Panel include:
  - Independent panelists;
  - Ad Hoc Work Group members;
  - Federal and state agency staff;
  - General public; and,
  - Authority staff and consultants
- 2) The primary intent of the initial meeting is to provide panelists an opportunity to review and comment on the Authority's proposed approach to developing a Finance Plan. Though panelists are intended to be the primary discussants, Ad Hoc Work Group members, Agency staff and then the general public will be invited to comment on draft materials and provide additional perspectives for the Panel to consider during its deliberations.
- 3) Panel Chair David Dowall, Authority staff and consultants will be responsible for guiding and moderating the discussion, as well as summarizing Panel discussions and public comments at various points throughout the day. (CONCUR, Inc. is the lead consultant assisting in meeting facilitation.)
- 4) During the public comment portions of the meeting, CONCUR will take comments in the order speakers request to be recognized. A three-minute time limit on comments and questions will be observed. Speakers will be encouraged to organize their thoughts in writing and to be as concise as possible.

#### Agenda and Meeting Structure

- 1) The agenda begins with a welcome, introduction of panelists and a brief review of the process to be used in structuring the meeting. This is to be followed by brief background on both the California Bay-Delta Program and the Authority's Finance Plan.



- 2) Next, Authority staff will present an overview of the Independent Review Panel's proposed purpose and focus. Panelists and other participants will be given an opportunity to comment on and pose questions following this presentation.
- 3) The main portion of the agenda has been structured to review the Framework and Issues Report (and associated materials) intended to guide the Authority's subsequent development of a Finance Plan Options Report. In reviewing and discussing these materials, the Panel will be asked to center its discussions on the following general questions:
  - Are the issues fully and fairly described in the Framework and Issues Report? Are there additional issues to be considered?
  - Is the Technical Approach outlined in the Framework and Issues Report adequate and effective to guide the development of long-term finance options? Are there specific changes that can be made to strengthen the approach?
  - What additional information, research and other preparation is necessary to inform either: (1) the Authority's development of an Options Report; or, (2) the Panel's future deliberations?
- 4) The review of each topic will begin with a background presentation by the Authority staff and consultants to set the context for each discussion topic. Following this overview, panelists will be invited to pose questions and offer comments. After an initial discussion among panelists, Ad Hoc Work Group members will be asked to offer comments and questions. This will be followed by comments from Agency staff and the general public. Finally, panelists will be asked to offer any final observations.
- 5) At the end of each discussion item, Authority staff and consultants will synthesize the results, with particular emphasis on the following items:
  - Summarizing primary themes;
  - Identifying recommended revisions/elaborations; and,
  - Noting additional data gathering and other preparation needs necessary to support the Panel's deliberations.
- 6) Following the full-group discussions, the Panel will meet separately in a brief sidebar to consider the deliberations and prepare, as appropriate, consolidated feedback to the Authority. Only panelists will participate in this discussion. The

Panel will report back all substantive comments and recommendations to meeting participants.

- 7) The meeting will conclude with an overall meeting synthesis by the Panel chair and Authority staff and consultants, as well as a consideration of Panel next steps.

### **Meeting Summary**

- 1) CONCUR will be responsible for preparing a report to summarize meeting results. The Summary Report is envisioned as a synthesis of the discussion; it is not intended to be a transcript. A 5-10 page document is envisioned.
- 2) Independent Review Panelists will have an opportunity to review and revise the draft Summary Report in late November.
- 3) The Summary Report will be completed by early December for subsequent presentation and discussion at the December 11, 2003, joint meeting of the Bay-Delta Authority and Bay-Delta Public Advisory Committee.
- 4) The Summary Report also will be posted on the Authority's web site.
- 5) Subsequent Panel meetings are expected to be held in February and April 2004.